

**BENTON HARBOR CHARTER SCHOOL ACADEMY**

**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**

**YEAR ENDED JUNE 30, 2006**

# CONTENTS

	<u>Page</u>
<b>Independent auditors' report</b> .....	iv - v
<b>Management's Discussion and Analysis</b> .....	vi - xii
<b>Basic financial statements</b>	
Government-wide financial statements	
Statement of net assets .....	1
Statement of activities .....	2
Fund financial statements	
Balance sheet - governmental funds .....	3
Statement of revenues, expenditures and changes in fund balances - governmental funds.....	4
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	5
Fiduciary funds	
Statement of fiduciary assets and liabilities .....	6
Notes to financial statements .....	7 - 19
<b>Required supplementary information</b> .....	20
Budgetary comparison schedule - general fund .....	21

## CONTENTS

	<u>Page</u>
<b>Additional information .....</b>	<b>22</b>
Nonmajor governmental fund types	
Combining balance sheet .....	23
Combining statement of revenues, expenditures and changes in fund balances .....	24
Special revenue funds	
Combining balance sheet .....	25
Combining statement of revenues, expenditures and changes in fund balances .....	26
Long-term debt	
Full term certificates of participation - series 2002A.....	27
Full term certificates of participation - series 2002B .....	28



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Racek  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

---

Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

August 23, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Benton Harbor Charter School Academy (the Academy), as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Benton Harbor Charter School Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Benton Harbor Charter School Academy as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Benton Harbor Charter School Academy

August 23, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2006, on our consideration of Benton Harbor Charter School Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xii and 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Benton Harbor Charter School Academy's basic financial statements. The additional information on pages 23 through 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Benton Harbor Charter School Academy's (Academy) annual financial report presents our discussion and analysis of the Academy's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Financial Highlights

- The Academy had an excess of expenditures over revenue in the general fund of \$(15,232) compared to a budgeted figure of \$(183,300). This gives the Academy a fund balance in the general fund of \$244,042.
- The Academy retired \$177,733 in long-term debt during the year.
- The Academy invested \$25,713 in capital assets during the year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide financial statements that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Table A-1 shows how the various parts of the annual report are arranged and related to one another.

**Table A-1**  
**Organization of Benton Harbor**  
**Charter School Academy**

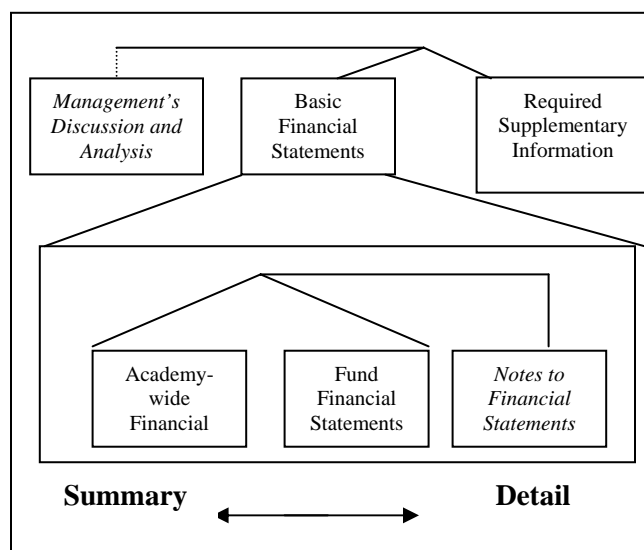


Table A-2 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

<b>Table A-2 Major Features of the Academy-wide and Fund Financial Statements</b>			
	<b>Fund Financial Statements</b>		
	<b>Academy-wide Statements</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire Academy (except fiduciary funds)	The activities of the Academy that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the Academy administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the Academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

### **Academy-wide statements**

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included in the general fund, such as regular education and special education, transportation and administration. State foundation aid finances most of these activities.

### **Fund financial statements**

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law and by debt agreements.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like food services).

All of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

### **Financial analysis of the Academy as a whole**

Net assets - the Academy's combined net assets (deficit) of \$(446,571) decreased by \$31,506 during the year, See Figures A-3 and A-4. The most significant factor was a lower than anticipated pupil count causing a decrease in state per pupil foundation funding.

The total general and program revenues decreased by 9.9% to \$4,115,730. State aid foundation allowance included in revenue from state sources accounts for 77.1% of the Academy's general and program revenues in 2006.

The total cost of instruction decreased by 1.8% to \$1,504,714. This decrease resulted primarily from across the board cuts made due to the 6.9% decrease in blended pupil count. Total support service increased by 2.9% to \$1,714,467.



**Figure A-3**  
**Benton Harbor Charter School Academy**

	2006	2005
Current assets	\$ 1,584,246	\$ 994,496
Restricted investments	752,202	888,906
Capital assets, net	5,099,683	5,220,901
Total assets	7,436,131	7,104,303
Current liabilities	1,442,702	999,368
Long-term debt outstanding	6,440,000	6,520,000
Total liabilities	7,882,702	7,519,368
Net assets:		
Invested in capital assets, net of related debt	(1,420,317)	(1,369,099)
Restricted for debt service	801,930	885,574
Unrestricted	171,816	68,460
Total net assets (deficit)	\$ (446,571)	\$ (415,065)

**Figure A-4**  
**Changes in Benton Harbor Charter School Academy's Net Assets**

	2006	2005
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 941,037	\$ 1,276,925
Charges for services	34,657	44,448
General revenues:		
State aid - unrestricted	3,015,641	3,175,127
Investment income	41,095	16,381
Other	83,300	53,969
Total general revenues	3,140,036	3,245,477
Special item - deferred fees adjustment		1,024,548
Total revenues	4,115,730	5,591,398
Expenses:		
Instruction	1,504,714	1,532,304
Support services	1,714,467	1,666,647
Food services	236,768	219,868
Athletics	12,848	
Interest and fees	531,508	530,680
Unallocated depreciation	146,931	101,451
Total expenses	4,147,236	4,050,950
Change in net assets	\$ (31,506)	\$ 1,540,448

## Financial analysis of the Academy's funds

The financial operation of the Academy is considered stable. The fund balance at June 30, 2006 is \$244,042. There was a 13.7% decrease in general fund revenue and a 16.8% decrease in expenditures for instructional programs and an increase of 4.4% in expenditures for support services.

### General fund budgetary highlights

#### Final budget vs. Actual

<u>Fiscal year</u>	<u>Final budget</u>	<u>Final actual</u>
Revenues		
2005 - 2006	<u>\$ 3,799,449</u>	<u>\$ 3,739,450</u>
Expenditures		
2005 - 2006	<u>\$ 3,407,749</u>	<u>\$ 3,244,894</u>

#### Original vs. Final budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Benton Harbor Charter School Academy amends its budget periodically as needed during the school year. For fiscal year 2005-2006, the budget was amended prior to June 30, 2006. The Benton Harbor Charter School Board does not budget for expenditures covered by grants or for the grant revenue until an award is received.

#### Revenues

Total revenues original budget	\$ 4,207,838
Total revenues final budget	<u>3,799,449</u>
Decrease in budgeted revenues	<u>\$ (408,389)</u>

The Academy's final general fund revenues were less than the final budget by \$59,999. This variance was primarily a result of a decrease in federal and state source revenue.

#### Expenditures

The Academy's budget for expenditures changed as follows during the year.

Total expenditures original budget	\$ 3,510,272
Total expenditures final budget	<u>3,407,749</u>
Decrease in budgeted expenditures	<u>\$ (102,523)</u>

The Academy's actual expenditures were less than final budget by \$162,855. This difference was primarily due to a decrease in staff salary and benefit costs.

## Capital asset and debt administration

### *Capital assets*

By the end of the year ended June 30, 2006, the Academy had invested \$5,099,683 in capital assets consisting primarily of land, buildings and improvements, equipment and furniture net of accumulated depreciation. This amount represents a net decrease in capital assets of \$121,218 from the beginning of the year. More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$146,931.

The Academy's capital assets are as follows:

<b>Figure A-5</b>				
<b>Benton Harbor Charter School Academy's Capital Assets</b>				
	<b>2006</b>			<b>2005</b>
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>	<b>Net book value</b>
Building and improvements	\$ 3,593,940	\$ 366,174	\$ 3,227,766	\$ 3,300,850
Furniture and equipment	195,356	47,904	147,452	134,310
Technology	306,381	81,916	224,465	285,741
Land	1,500,000		1,500,000	1,500,000
Total	<u>\$ 5,595,677</u>	<u>\$ 495,994</u>	<u>\$ 5,099,683</u>	<u>\$ 5,220,901</u>

### Debt administration

The Academy financed its facilities acquisition by issuing Certificates of Participation. A summary of long-term debt service activities is as follows:

	<u>2006</u>	<u>2005</u>
Governmental activities:		
Certificates of participation	\$ 6,520,000	\$ 6,590,000
State aid repayment liability		<u>107,733</u>
Total	<u>\$ 6,520,000</u>	<u>\$ 6,697,733</u>

The Academy repaid \$70,000 of certificates of participation in 2006. The state aid repayment liability was paid back in the 2005 - 2006 school year. See Note 6 of the financial statements.

### **Economic Factors bearing on the Academy's future**

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- The foundation allowance was increased \$210 (3.1%) to \$7,085 per pupil for the fiscal year 2007.
- The Academy has adopted a general fund budget with an excess of revenues over expenditures of \$150,060.

### **Contacting the Academy's financial management**

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, LLC, at P.O. Box 141493, Grand Rapids, Michigan, 49514. Phone (616) 785-8440.

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<u><b>Governmental activities</b></u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 683,325
Receivables:	
Accounts receivable	19,625
Other governmental units	715,666
Prepaid expenses	165,630
<b>TOTAL CURRENT ASSETS</b>	<u>1,584,246</u>
<b>NONCURRENT ASSETS:</b>	
Restricted investments	752,202
Capital assets	5,595,677
Less accumulated depreciation	(495,994)
<b>NET CAPITAL ASSETS</b>	<u>5,099,683</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>5,851,885</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 7,436,131</u></u>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 47,177
Accrued interest	85,850
Accrued salaries and related items	240,445
Other accrued expenses	16,323
Note payable	972,907
Current portion of long-term obligations	80,000
<b>TOTAL CURRENT LIABILITIES</b>	1,442,702
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent portion of long-term obligations	6,440,000
<b>TOTAL LIABILITIES</b>	<u>7,882,702</u>
<b>NET ASSETS (DEFICIT):</b>	
Invested in capital assets, net of related debt	(1,420,317)
Restricted for debt service	801,930
Unrestricted	171,816
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>(446,571)</u>
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<u><u>\$ 7,436,131</u></u>

See notes to financial statements.

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2006**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 1,504,714	\$	\$ 633,128	\$ (871,586)
Support services	1,714,467	34,657	70,348	(1,609,462)
Food services	236,768		237,561	793
Athletics	12,848			(12,848)
Interest and fees	531,508			(531,508)
Unallocated depreciation	146,931			(146,931)
Total governmental activities	<u>\$ 4,147,236</u>	<u>\$ 34,657</u>	<u>\$ 941,037</u>	<u>(3,171,542)</u>
General revenues:				
Investment earnings				41,095
State sources				3,015,641
Local sources				52,447
ISD special education				<u>30,853</u>
Total general revenues				<u>3,140,036</u>
<b>CHANGE IN NET ASSETS</b>				(31,506)
<b>NET ASSETS (DEFICIT), beginning of year</b>				<u>(415,065)</u>
<b>NET ASSETS (DEFICIT), end of year</b>				<u>\$ (446,571)</u>

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2006**

	General fund	Debt service fund	Nonmajor governmental funds	Total governmental funds
<b>ASSETS</b>				
<b>ASSETS:</b>				
Cash	\$ 630,114	\$	\$ 53,211	\$ 683,325
Investments		712,609	39,593	752,202
Receivables:				
Accounts receivable	19,625			19,625
Due from other governmental units	666,288		49,378	715,666
Due from other governmental funds	99,407	60,171		159,578
Prepaid expenditures	165,630			165,630
<b>TOTAL ASSETS</b>	<b>\$ 1,581,064</b>	<b>\$ 772,780</b>	<b>\$ 142,182</b>	<b>\$ 2,496,026</b>

**LIABILITIES AND FUND BALANCES**

<b>LIABILITIES:</b>				
Accounts payable	\$ 47,176	\$	\$ 1	\$ 47,177
Accrued salaries and related items	240,445			240,445
Other accrued expenses	16,323			16,323
Notes payable	972,907			972,907
Due to other funds	60,171		99,407	159,578
<b>TOTAL LIABILITIES</b>	<b>1,337,022</b>		<b>99,408</b>	<b>1,436,430</b>

	General fund	Debt service fund	Nonmajor governmental funds	Total governmental funds
<b>FUND BALANCES:</b>				
Reserved for debt service	\$ 115,000	\$ 772,780	\$	\$ 887,780
Reserved for prepaid expenditures	165,630			165,630
Reserved for capital projects			39,593	39,593
Unreserved, undesignated	(36,588)		3,181	(33,407)
<b>TOTAL FUND BALANCES</b>	<b>244,042</b>	<b>772,780</b>	<b>42,774</b>	<b>1,059,596</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,581,064</b>	<b>\$ 772,780</b>	<b>\$ 142,182</b>	<b>\$ 2,496,026</b>
<b>Total governmental fund balances</b>				<b>\$ 1,059,596</b>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is	\$ 5,595,677	
Accumulated depreciation is	<u>(495,994)</u>	5,099,683

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Certificates of participation	(6,520,000)
Accrued interest is not included as a liability in government funds, it is recorded when paid	<u>(85,850)</u>

<b>Net assets (deficit) of governmental activities</b>	<b><u>\$ (446,571)</u></b>
--	----------------------------

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2005**

	General fund	Debt service fund	Nonmajor governmental funds	Total governmental funds
<b>REVENUES:</b>				
Local sources:				
Rentals, private sources	\$ 80,444	\$	\$	\$ 80,444
Investment income	10,109	27,924	3,062	41,095
Incoming transfers and other	37,513			37,513
Total local sources	128,066	27,924	3,062	159,052
State sources	3,170,184		25,246	3,195,430
Federal sources	441,200		212,315	653,515
Total revenues	3,739,450	27,924	240,623	4,007,997
<b>EXPENDITURES:</b>				
Instruction:				
Basic programs	842,189			842,189
Added needs	662,525			662,525
Total instruction	1,504,714			1,504,714
Support services:				
Pupil	57,402			57,402
Instructional staff	59,269			59,269
General administration	465,752			465,752
School administration	264,135			264,135
	General fund	Debt service fund	Nonmajor governmental funds	Total governmental funds
<b>EXPENDITURES (Concluded):</b>				
Support services (Concluded):				
Business	\$ 34,070	\$	\$	\$ 34,070
Operation and maintenance	372,222			372,222
Pupil transportation services	468,094			468,094
Central support services	19,236			19,236
Total support services	1,740,180			1,740,180
Food service			236,768	236,768
Athletics			12,848	12,848
Debt service:				
Principal retirement		70,000		70,000
Interest and fiscal charges		532,675		532,675
Total expenditures	3,244,894	602,675	249,616	4,097,185
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	494,556	(574,751)	(8,993)	(89,188)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in		496,940	16,848	513,788
Operating transfers out	(509,788)	(4,000)		(513,788)
Total other financing sources (uses)	(509,788)	492,940	16,848	
<b>NET CHANGE IN FUND BALANCES</b>				
	(15,232)	(81,811)	7,855	(89,188)
<b>FUND BALANCES:</b>				
Beginning of year	259,274	854,591	34,919	1,148,784
End of year	\$ 244,042	\$ 772,780	\$ 42,774	\$ 1,059,596



**BENTON HARBOR CHARTER SCHOOL ACADEMY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

<b>Net change in fund balances total governmental funds</b>	<b>\$ (89,188)</b>
---	--------------------

Amounts reported for governmental activities in the statement of activities are different because:  
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(146,931)
Capital outlay	25,713

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.

Accrued interest payable, beginning of the year	87,017
Accrued interest payable, end of the year	(85,850)

Repayments of principal on long-term debts are expenditures in the governmental funds, but not in the statement of activities (where they are reductions of liabilities).

Principal repayment - certificates of participation	70,000
---	--------

Repayments of the long-term debt related to the state aid repayment liability is a reduction to revenue in the governmental funds, but not in the statement of activities (where they are reductions of liabilities).

State aid repayment liability repaid in 2006	107,733
--	---------

<b>Change in net assets of governmental activities</b>	<b>\$ (31,506)</b>
--	--------------------

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2006**

	<u>Agency</u>
<b>ASSETS</b>	
Cash	\$ 209
	<u>209</u>
<b>LIABILITIES</b>	
Due to student groups	\$ 209
	<u>209</u>

## **BENTON HARBOR CHARTER SCHOOL ACADEMY NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Benton Harbor Charter School Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

#### **A. Reporting Entity**

The Benton Harbor Charter School Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Ferris State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school academy through June 2009. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

#### **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Continued)**

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues).

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on certificates of participation.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Concluded)**

**Other Non-major Funds**

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service and athletic activity in the special revenue fund.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**Fiduciary funds** account for assets held by the Academy in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Academy under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for the assets that the Academy holds for others in an agency capacity (primarily student activities).

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposit accounts

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intend to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

All receivables are shown net of an allowance for uncollectibles.

3. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Concluded)**

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building	50 years
Furniture and equipment	5-20 years
Technology	5 years

The Academy's capitalization policy is to capitalize individual amounts exceeding \$5,000.

5. Long-term Obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.



**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

7. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Amounts reserved for debt service in the general fund consist of a portion of the amount due from other governmental units legally restricted for debt service. These funds are transferred to the debt service fund upon receipt.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general fund. Annual appropriations lapse at year end.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the board of directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the board.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The Academy does not consider these amendments to be significant.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS**

As of June 30, 2006, the Academy had the following investments:

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
First American Funds Treasury Obligations Fund - class D	<u>\$ 752,202</u>	0.0027	AAAm	<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

One day maturity equals 0.0027, one year equals 1.00

The Academy invests certain excess funds in external pooled investment funds which included treasury obligations. The treasury obligation reports as of June 30, 2006, the fair value of the Academy's investments is the same as the value of the pool shares.

These investments are restricted under the terms of the certificates of participation debt agreements primarily for debt service and maintenance and repair of the related facilities.

**Interest rate risk.** The Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the Academy did not have investments in commercial paper and corporate bonds.

**Concentration of credit risk.** The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2006, \$602,905 of the Academy's bank balance of \$793,659 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing deposits. Fiduciary fund balances are not included in the above balances. As of June 30, 2006, none of the fiduciary fund's bank balance of \$209 was exposed to custodial credit risk.

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS (Concluded)**

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

**Foreign currency risk.** The Academy is not authorized to invest in investments which have this type of risk.

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30 ,2006
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$1,500,000	\$	\$	\$ 1,500,000
Capital assets being depreciated:				
Building	3,593,940			3,593,940
Furniture and equipment	169,643	25,713		195,356
Technology	306,381			306,381
Depreciable capital assets	4,069,964	25,713		4,095,677
Accumulated depreciation:				
Building	293,090	73,084		366,174
Furniture and equipment	35,333	12,571		47,904
Technology	20,640	61,276		81,916
Total accumulated depreciation	349,063	146,931		495,994
Net depreciable capital assets	3,720,901	(121,218)		3,599,683
Net governmental capital assets	\$5,220,901	\$ (121,218)	\$	\$ 5,099,683

Depreciation for the fiscal year ended June 30, 2006 amounted to \$146,931. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - NOTE PAYABLE**

At June 30, 2006, the Academy has two state aid anticipation note payables outstanding with balances totaling \$972,907. The first note with interest at 6.26% matures July 20, 2006. The second note with interest at 5.25% matures June 22, 2007. The notes are secured by future state school aid payments.

	Balance June 30, 2005	Additions	Payments	Balance June 30, 2006
Note 1 - 6.26%	\$	\$ 1,000,000	\$ 897,093	\$ 102,907
Note 2 - 5.25%		870,000		870,000
	<u>\$</u>	<u>\$ 1,870,000</u>	<u>\$ 897,093</u>	<u>\$ 972,907</u>

**NOTE 6 - LONG-TERM DEBT**

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2006:

	Certificates of participation	State aid repayment liability	Total
Balance, July 1, 2005	\$ 6,590,000	\$ 107,733	\$ 6,697,733
Repayments	<u>70,000</u>	<u>107,733</u>	<u>177,733</u>
Balance, June 30, 2006	6,520,000		6,520,000
Less current portion	<u>80,000</u>		<u>80,000</u>
Total due after one year	<u>\$ 6,440,000</u>	<u>\$</u>	<u>\$ 6,440,000</u>

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Concluded)**

Long-term debt currently outstanding is as follows:

2002 Series A term certificates due in annual installments of \$100,000 to \$1,080,000 through May 1, 2032 with interest ranging from 7% to 8%.	\$ 6,210,000
2002 Series B term certificates due in annual installments of \$80,000 to \$145,000 through May 1, 2009 with interest at 10%.	<u>310,000</u>
Total general long-term debt	<u><u>\$ 6,520,000</u></u>

The annual requirements to amortize long-term debts outstanding as of June 30, 2006, including interest of \$9,322,575 are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 80,000	\$ 515,100	\$ 595,100
2008	85,000	507,100	592,100
2009	145,000	498,600	643,600
2010	100,000	484,100	584,100
2011	105,000	477,100	582,100
2012-2016	655,000	2,263,350	2,918,350
2017-2021	930,000	1,991,001	2,921,001
2022-2026	1,355,000	1,567,424	2,922,424
2027-2031	1,985,000	932,400	2,917,400
2032	<u>1,080,000</u>	<u>86,400</u>	<u>1,166,400</u>
	<u><u>\$ 6,520,000</u></u>	<u><u>\$ 9,322,575</u></u>	<u><u>\$ 15,842,575</u></u>

An amount of \$772,780 is available in the debt service funds to service the certificates. The certificates may be paid off early beginning on May 1, 2012 at the discretion of the Academy at stated amounts based on the terms of the agreement.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivable and payable balances at June 30, 2006 are as follows:

<u>Receivable fund</u>		<u>Payable fund</u>	
General fund	\$ 99,407	Food service fund	\$ 99,407
Debt service fund	<u>60,171</u>	General fund	<u>60,171</u>
	<u>\$ 159,578</u>		<u>\$ 159,578</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfunds goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made.

**NOTE 8 - TRANSFERS**

Operating transfers between the governmental funds were as follows:

<u>Operating transfers out</u>		<u>Operating transfers in</u>	
General fund	\$ 509,788	Athletics fund	\$ 12,848
Debt service fund	<u>4,000</u>	Debt service fund	496,940
	<u>\$ 513,788</u>	Capital projects fund	<u>4,000</u>
			<u>\$ 513,788</u>

The operating transfers to the debt service fund from the general fund were to pay the debt service principal and interest payments. The transfers from the general fund to the athletics fund were made to cover operating expenses. Transfers to the capital projects fund were to comply with the maintenance and replacement requirements of the certificates of participation debt agreement.

**NOTE 9 - OVERSIGHT FEES**

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and proposal A obligation payments to Ferris State University, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2006, the Academy incurred expense of approximately \$92,500 for oversight fees.

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - MANAGEMENT AGREEMENT**

The Academy had entered into a five year (through June 2009) management agreement with Choice Schools Associates LLC (Choice Schools) for operations of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy is a fixed fee of \$325,000 per year.

**NOTE 11 - PURCHASED SERVICES**

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools. The amount payable to Choice Schools at June 30, 2006 was approximately \$500.

**NOTE 12 - RISK MANAGEMENT**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

**NOTE 13 - OPERATING LEASES**

In September of 2003, the Academy entered into a lease for copiers. Total payments were approximately \$50,000 for the year ending June 30, 2006. Minimum rental commitments at June 30, 2006 for all non-cancelable operating leases are as follows:

Year ending	
2007	\$ 32,400
2008	32,400
2009	<u>5,400</u>
	<u><u>\$ 70,200</u></u>

## **REQUIRED SUPPLEMENTARY INFORMATION**



**BENTON HARBOR CHARTER SCHOOL ACADEMY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$72,000	\$90,000	\$128,066	\$38,066
State sources	3,716,413	3,227,826	3,170,184	(57,642)
Federal sources	419,425	481,623	441,200	(40,423)
Total revenues	4,207,838	3,799,449	3,739,450	(59,999)
EXPENDITURES:				
Instruction:				
Basic programs	1,120,549	851,865	842,189	9,676
Added needs	681,476	796,641	662,525	134,116
Total instruction	1,802,025	1,648,506	1,504,714	143,792
Support services:				
Pupil	122,371	55,600	57,402	(1,802)
Instructional staff	155,099	110,917	59,269	51,648
General administration	473,700	477,325	465,752	11,573
School administration	242,539	233,577	264,135	(30,558)
Business	34,300	38,734	34,070	4,664
Operation and maintenance	278,738	385,090	372,222	12,868
Pupil transportation services	375,000	435,000	468,094	(33,094)
Central services	25,500	23,000	19,236	3,764
Total support services	1,707,247	1,759,243	1,740,180	19,063
	Original budget	Final budget	Actual	Variance with final budget positive (negative)
EXPENDITURES (Concluded):				
Community services:	\$1,000		\$	\$-
Total expenditures	3,510,272	3,407,749	3,244,894	162,855
EXCESS OF REVENUES OVER EXPENDITURES	697,566	391,700	494,556	102,856
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(605,000)	(575,000)	(509,788)	65,212
NET CHANGE IN FUND BALANCE	\$92,566	\$(183,300)	\$(15,232)	\$168,068
FUND BALANCE:				
Beginning of year			259,274	
End of year			\$244,042	

## **ADDITIONAL INFORMATION**

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NONMAJOR GOVERNMENTAL FUND TYPES  
COMBINING BALANCE SHEET  
JUNE 30, 2006**

	<b>Special revenue fund</b>	<b>Capital projects funds</b>	<b>Total nonmajor governmental funds</b>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash	\$ 53,211	\$	\$ 53,211
Investments		39,593	39,593
Due from other governmental units	49,378		49,378
	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 102,589</b>	<b>\$ 39,593</b>	<b>\$ 142,182</b>
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 1	\$	\$ 1
Due to other funds	99,407		99,407
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>99,408</b>		<b>99,408</b>
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES:</b>			
Reserved for capital projects		39,593	39,593
Undesignated	3,181		3,181
	<hr/>	<hr/>	<hr/>
<b>TOTAL FUND BALANCES</b>	<b>3,181</b>	<b>39,593</b>	<b>42,774</b>
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 102,589</b>	<b>\$ 39,593</b>	<b>\$ 142,182</b>
	<hr/>	<hr/>	<hr/>

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2006**

	<b>Special revenue fund</b>	<b>Capital projects funds</b>	<b>Total nonmajor governmental funds</b>
<b>REVENUES:</b>			
State sources	\$ 25,246	\$	\$ 25,246
Federal aid	212,315		212,315
Investment income	1,784	1,278	3,062
	<hr/>	<hr/>	<hr/>
Total revenues	239,345	1,278	240,623
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES:</b>			
Salaries	51,638		51,638
Benefits	21,857		21,857
Food	165,488		165,488
Transportation	5,194		5,194
Supplies	3,639		3,639
Rental	1,800		1,800
	<hr/>	<hr/>	<hr/>
Total expenditures	249,616		249,616
	<hr/>	<hr/>	<hr/>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(10,271)	1,278	(8,993)
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfer in	12,848	4,000	16,848
	<hr/>	<hr/>	<hr/>
<b>NET CHANGE IN FUND BALANCES</b>	2,577	5,278	7,855
<b>FUND BALANCES, beginning of year</b>	604	34,315	34,919
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES, end of year</b>	\$ 3,181	\$ 39,593	\$ 42,774
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2006**

	<b>School lunch fund</b>	<b>Athletics fund</b>	<b>Total</b>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash	\$ 53,211	\$	\$ 53,211
Due from other governmental units	49,378		49,378
	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 102,589</b>	<b>\$</b>	<b>\$ 102,589</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 1	\$	1
Due to other funds	99,407		99,407
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>99,408</b>		<b>99,408</b>
<b>FUND BALANCES:</b>			
Undesignated	3,181		3,181
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 102,589</b>	<b>\$</b>	<b>\$ 102,589</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2006**

	<b>School lunch fund</b>	<b>Athletics fund</b>	<b>Total</b>
<b>REVENUES:</b>			
State sources	\$ 25,246	\$	\$ 25,246
Federal aid	212,315		212,315
Investment income	1,784		1,784
	<hr/>	<hr/>	<hr/>
Total revenues	239,345		239,345
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES:</b>			
Salaries	49,638	2,000	51,638
Benefits	21,642	215	21,857
Food	165,488		165,488
Transportation		5,194	5,194
Supplies		3,639	3,639
Rental		1,800	1,800
	<hr/>	<hr/>	<hr/>
Total expenditures	236,768	12,848	249,616
	<hr/>	<hr/>	<hr/>
<b>EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES</b>	2,577	(12,848)	(10,271)
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfer in		12,848	12,848
	<hr/>	<hr/>	<hr/>
<b>NET CHANGE IN FUND BALANCES</b>	2,577		2,577
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES, beginning of year</b>	604		604
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES, end of year</b>	\$ 3,181	\$	\$ 3,181
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
FULL TERM CERTIFICATES OF PARTICIPATION - SERIES 2002A  
YEAR ENDED JUNE 30, 2006**

\$6,210,000 Certificates issued May 1, 2002.

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
	\$ 242,050	\$ 242,050	2007	\$ 484,100
	242,050	242,050	2008	484,100
	242,050	242,050	2009	484,100
100,000	242,050	242,050	2010	584,100
105,000	238,550	238,550	2011	582,100
115,000	234,875	234,875	2012	584,750
120,000	230,850	230,850	2013	581,700
130,000	226,650	226,650	2014	583,300
140,000	222,100	222,100	2015	584,200
150,000	217,200	217,200	2016	584,400
160,000	211,950	211,950	2017	583,900
170,000	206,350	206,350	2018	582,700
185,000	199,763	199,762	2019	584,525
200,000	192,594	192,594	2020	585,188
215,000	184,844	184,844	2021	584,688
230,000	176,512	176,512	2022	583,024
250,000	167,600	167,600	2023	585,200
270,000	157,600	157,600	2024	585,200
290,000	146,800	146,800	2025	583,600
315,000	135,200	135,200	2026	585,400
340,000	122,600	122,600	2027	585,200
365,000	109,000	109,000	2028	583,000
395,000	94,400	94,400	2029	583,800
425,000	78,600	78,600	2030	582,200
460,000	61,600	61,600	2031	583,200
1,080,000	43,200	43,200	2032	1,166,400
<u>\$ 6,210,000</u>	<u>\$ 4,627,038</u>	<u>\$ 4,627,037</u>		<u>\$ 15,464,075</u>

The above certificates bear interest rates at 7% to 8%. The certificate proceeds were used for the acquisition of real property and improvements thereto.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
FULL TERM CERTIFICATES OF PARTICIPATION - SERIES 2002B  
YEAR ENDED JUNE 30, 2006**

\$500,000 Certificates issued May 1, 2002.

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 80,000	\$ 15,500	\$ 15,500	2007	\$ 111,000
85,000	11,500	11,500	2008	108,000
145,000	7,250	7,250	2009	159,500
<u>\$ 310,000</u>	<u>\$ 34,250</u>	<u>\$ 34,250</u>		<u>\$ 378,500</u>

The above certificates bear interest rates at 10.0%. The certificate proceeds were used for the acquisition of real property and improvements thereto.



**BENTON HARBOR CHARTER SCHOOL ACADEMY**

**ADDITIONAL REPORTS REQUIRED BY  
OMB CIRCULAR A-133**

**YEAR ENDED JUNE 30, 2006**

CONTENTS

	<u>Page</u>
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> .....	1 - 2
Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 .....	3 - 4
Schedule of expenditures of federal awards .....	5 - 6
Notes to schedule of expenditures of federal awards .....	7
Schedule of findings and questioned costs .....	8
Schedule of prior audit findings.....	9



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Racek  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

---

Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

August 23, 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Benton Harbor Charter School Academy as of and for the year ended June 30, 2006, which collectively comprise Benton Harbor Charter School Academy's basic financial statements and have issued our report thereon dated August 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Benton Harbor Charter School Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Directors  
Benton Harbor Charter School Academy

August 23, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Benton Harbor Charter School Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Benton Harbor Charter School Academy in a separate letter dated August 23, 2006.

This report is intended solely for the information and use of the Board of Directors, management and the U.S. Department of Education, Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Racek  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

---

Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

August 23, 2006

Compliance

We have audited the compliance of Benton Harbor Charter School Academy with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. Benton Harbor Charter School Academy's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Benton Harbor Charter School Academy's management. Our responsibility is to express an opinion on Benton Harbor Charter School Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Benton Harbor Charter School Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Benton Harbor Charter School Academy's compliance with those requirements.

To the Board of Directors  
Benton Harbor Charter School Academy

August 23, 2006

In our opinion, Benton Harbor Charter School Academy complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

#### Internal Control Over Compliance

The management of Benton Harbor Charter School Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Benton Harbor Charter School Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Benton Harbor Charter School Academy as of and for the year ended June 30, 2006, and have issued our report thereon dated August 23, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Benton Harbor Charter School Academy's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2005	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child nutrition cluster:								
National School Lunch Program - Section 4	10.555	051950	\$ 14,871	\$ 3,575	\$ 13,440	\$ 5,006	\$ 1,431	\$
National School Lunch Program - Section 4		061950	12,938			9,580	12,938	3,358
National School Lunch Program - Section 11		051960	122,053	30,691	109,695	43,049	12,358	
National School Lunch Program - Section 11		061960	110,407			81,814	110,407	28,593
			<u>260,269</u>	<u>34,266</u>	<u>123,135</u>	<u>139,449</u>	<u>137,134</u>	<u>31,951</u>
National School Lunch Program - Breakfast	10.553	051970	76,061	19,472	68,636	26,897	7,425	
National School Lunch Program - Breakfast		061970	67,756			50,330	67,756	17,426
			<u>143,817</u>	<u>19,472</u>	<u>68,636</u>	<u>77,227</u>	<u>75,181</u>	<u>17,426</u>
Total U.S. Department of Agriculture			<u>404,086</u>	<u>53,738</u>	<u>191,771</u>	<u>216,676</u>	<u>212,315</u>	<u>49,377</u>
<u>U.S. Department of Education:</u>								
Passed through Michigan Department of Education:								
Title I								
	84.010	0515300405	341,994	32,000	341,994	32,000		
		0615300506	365,130			319,401	365,130	45,729
		0515500506	30,000				3,973	3,973
			<u>737,124</u>	<u>32,000</u>	<u>341,994</u>	<u>351,401</u>	<u>369,103</u>	<u>49,702</u>
Title V LEA Allocation	84.298	060250-0506	<u>6,092</u>				<u>6,092</u>	<u>6,092</u>
Title II, Part D - Technology literacy challenge grants	84.318	064290-0506	<u>6,812</u>				<u>6,812</u>	<u>6,812</u>

The accompanying notes are an integral part of this schedule.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2005	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Education (Concluded):</u>								
Passed through Michigan Department of Education (Concluded):								
Title II, Part A -								
Improving teacher quality	84.367	060520-0506	\$ 58,935	\$	\$	\$ 30,316	58,935	28,619
Total passed through Michigan Department of Education			808,963	32,000	341,994	381,717	440,942	91,225
Passed through Berrien Intermediate School District								
Title II, Part B -								
Math plus science	84.366		258				258	258
Total U.S. Department of Education			809,221	32,000	341,994	381,717	441,200	91,483
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,213,307	\$ 85,738	\$ 533,765	\$ 598,393	\$ 653,515	\$ 140,860

The accompanying notes are an integral part of this schedule.



**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Benton Harbor Charter School Academy and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. CFDA #84.010 was audited as the major program, representing 57% of expenditures. The Academy qualifies for low risk auditee status.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 441,200
Special revenue fund	<u>212,315</u>
Subtotal	<u><u>\$ 653,515</u></u>

## Section I - Summary of Auditors' Results

*Unqualified*

Internal control over financial reporting:

- |   |                   |     |              |               |
|---|-------------------|-----|--------------|---------------|
| ➤ Material weakness(es) identified?   | <u>          </u> | Yes | <u>  X  </u> | No            |
| ➤ Reportable condition(s) identified that are not considered to be material weaknesses? |                   | Yes | X            | None reported |

Noncompliance material to financial statements noted?

### *Federal Awards*

Internal control over major programs:

- |   |   |                   |     |              |               |
|---|---|-------------------|-----|--------------|---------------|
| ➤ | Material weakness(es) identified:   | <u>          </u> | Yes | <u>  X  </u> | No            |
| ➤ | Reportable condition(s) identified that are not considered to be material weakness(es)? |                   | Yes | X            | None reported |

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X	Yes	No
---	-----	----

## Section II - Financial Statement Findings

None

### Section III - Federal Award Findings and Questioned Costs

None

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2006**

There were no prior year audit findings.



Iamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Racek  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

---

Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

August 23, 2006

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

In planning and performing our audit of the financial statements of Benton Harbor Charter School Academy for the year ended June 30, 2006, we considered the Academy's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

The following comments address issues that will affect the Academy in the future. This letter does not affect our report dated August 23, 2006, on the financial statements of Benton Harbor Charter School Academy.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the Academy in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a Academy's actual revenues were less than budgeted revenues and, at the same time, depleted the Academy fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 2 of the financial statements. While there may be technical violations of the act we believe the Academy's current budget procedures are adequate.

#### Cash Management - Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the Academy within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the Academy request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

### New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the Academy's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the Academy beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the Academy could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the Academy. We will have to evaluate the Academy's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

4

August 23, 2006

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Academy personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Benton Harbor Charter School Academy, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Maner, Costerisan + Ellis, P.C.*



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

---

Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

August 23, 2006

To the Audit Committee  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

We have audited the financial statements of Benton Harbor Charter School Academy for the year ended June 30, 2006, and have issued our report thereon dated August 23, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated June 7, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Benton Harbor Charter School Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Benton Harbor Charter School Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Benton Harbor Charter School Academy's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Benton Harbor Charter School Academy's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Benton Harbor Charter School Academy's compliance with those requirements.



2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Benton Harbor Charter School Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Benton Harbor Charter School Academy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates to report.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Academy's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Academy, either individually or in the aggregate, indicate matters that could have a significant effect on the Academy's financial reporting process. Management has approved all adjustments.

As a result of accrued expenses being overstated by approximately \$56,000 at June 30, 2005, the beginning of year net assets and fund balance of the general fund were understated and 2006 revenues were overstated by the same amount. Management believes the affect of this adjustment is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the school district's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the audit committee and management of Benton Harbor Charter School Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maner, Costerisan + Ellis, P.C.*